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INFO	LOG-00	AID-00	AMAD-00	CIAE-00	COME-00	CTME-00	DODE-00
	ITCE-00	SRPP-00	EB-00	EXME-00	E-00	UTED-00	VC-00
	FRB-00	H-01	TEDE-00	INR-00	ITC-01	LAB-01	VCE-00
	AC-01	NSAE-00	OES-00	OMB-01	OPIC-01	ACE-00	SP-00
	SSO-00	STR-00	TEST-00	TRSE-00	USIE-00	FMP-00	DRL-02
	G-00	NFAT-00	SAS-00	/008W			

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R 221155Z JAN 03  
FM AMEMBASSY SANTO DOMINGO  
TO SECSTATE WASHDC 5982  
INFO AMEMBASSY CARACAS

UNCLAS SECTION 01 OF 02 SANTO DOMINGO 000270

SENSITIVE

E.O. 12958: N/A  
TAGS: DR, ECON, EFIN, EPET  
SUBJECT: VENEZUELAN OIL STRIKE IMPACTS THE DOMINICAN  
REPUBLIC

1. (SBU) SUMMARY: THE PRESENT SOCIAL AND POLITICAL CRISIS  
IN VENEZUELA HAS CAST A LONG SHADOW, IMPACTING THE ECONOMIC  
CLIMATE IN THE DOMINICAN REPUBLIC. THE DOMINICAN REPUBLIC IS  
THE NUMBER ONE PER CAPITA CONSUMER OF OIL IN LATIN AMERICA.  
THE LACK OF A STEADY AND RELIABLE FLOW OF OIL FROM VENEZUELA

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UNDER THE SAN JOSE ACCORDS HAS FORCED THE DOMINICAN REPUBLIC  
TO LOOK ELSEWHERE TO MEET ITS VORACIOUS ENERGY NEEDS,  
RESULTING IN HIGHER PRICES AND CALLS FOR GOVERNMENT ACTION.  
END SUMMARY.

2. (U) WHILE THE TRADE RELATIONSHIP BETWEEN THE DOMINICAN  
REPUBLIC AND VENEZUELA IS NOT SIGNIFICANT IN MANY RESPECTS,  
AN EXCEPTION TO THIS IS IN THE PETROLEUM MARKET.  
THE DOMINICAN REPUBLIC, THE NUMBER ONE PER CAPITA CONSUMER OF  
OIL IN LATIN AMERICA, HAS TRADITIONALLY MET ITS CONSIDERABLE  
ENERGY DEMANDS THROUGH IMPORTS, VIA THE  
&PROGRAM FOR ENERGY COOPERATION BY THE COUNTRIES OF CENTRAL  
AMERICA AND THE CARIBBEAN,8 OR &SAN JOSE ACCORDS.8 THE  
AGREEMENT WAS ORIGINALLY NEGOTIATED IN 1980, AND AMENDED IN  
OCTOBER 2000 BY THE &AGREEMENT FOR ENERGY COOPERATION OF

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CARACAS,8 OR &CARACAS ACCORD.8 THIS PREFERENTIAL PURCHASING AGREEMENT GUARANTEES THE DOMINICAN REPUBLIC (AND NINE OTHER CARIBBEAN AND CENTRAL AMERICAN COUNTRIES) AN UNINTERRUPTED SUPPLY OF OIL, A NEGOTIATED AND PREDICTABLE PRICE RANGE FOR THAT OIL, FLEXIBLE FINANCING, A GRACE PERIOD FOR PAYMENT, AND COMPETITIVELY LOW INTEREST RATES ON OUTSTANDING PURCHASES. IN ADDITION, THE ACCORDS PROVIDE THAT 20 PERCENT OF THE MONEY SPENT PURCHASING OIL IS REINVESTED INTO THE DEVELOPMENT OF THE PURCHASING COUNTRY. THE RECENT DOMESTIC UPHEAVAL IN VENEZUELA HAS BROUGHT OIL IMPORTS FROM THAT COUNTRY TO A VIRTUAL HALT. THIS HAS FORCED THE DOMINICAN REPUBLIC TO SATISFY ITS CONSIDERABLE DEMAND FOR ENERGY IN THE SPOT MARKET.

3. (U) WHERE IT CAME FROM: IN 2002, THE DOMINICAN REPUBLIC MET THE BULK OF ITS PETROLEUM PURCHASING NEEDS VIA THE  
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ACCORDS, PURCHASING 59.8 PERCENT OF ITS OIL DIRECTLY FROM VENEZUELA ) OIL WITH A MARKET VALUE OF \$61.1 BILLION DOLLARS. THE DOMINICAN REPUBLIC IMPORTED 13.8 PERCENT OF IT'S OIL FROM MEXICO, VALUED AT \$13.1 BILLION DOLLARS; 13.0 PERCENT FROM THE UNITED STATES AT A COST OF \$10.8 BILLION DOLLARS; AND VARIOUS OTHER COUNTRIES ACCOUNTING FOR 13.4 PERCENT OF IMPORTS, AND A MARKET VALUE OF \$15 BILLION DOLLARS. OVERALL, OIL AND REFINED PRODUCTS ACCOUNTED FOR 18.9 PERCENT OF THE VALUE OF THE COUNTRY,S TOTAL IMPORTS.

4. (U) WHERE IT WENT: OF THIS IMPORTED FUEL, 540 MILLION GALLONS WERE FUEL OILS UTILIZED BY THE LOCAL POWER INDUSTRY AND CONVERTED TO ELECTRICITY. APPROXIMATELY 439 MILLION GALLONS WERE "GASOIL" OR DIESEL FUEL, USED FOR PUBLIC TRANSPORTATION; 342 MILLION GALLONS WERE GASOLINE (84 PERCENT REGULAR AND 16 PERCENT PREMIUM) USED TO POWER PRIVATE VEHICLES; AND 234 MILLION GALLONS WERE SOLD AS PROPANE FOR DOMESTIC USE. APPROXIMATELY 70 PERCENT OF THE COUNTRY'S OIL IMPORTS ARRIVED AS REFINED FUELS, AND 30 PERCENT WAS IMPORTED AS CRUDE. THE DOMINICAN REPUBLIC ONLY HAS THE CAPACITY TO REFINO OIL TO MEET 24 PERCENT OF THE COUNTRY'S NEEDS.

5. (SBU) INTERNAL MARKET: THE PETROLEUM MARKET IS DIVIDED BETWEEN FOUR PRIMARY RETAIL SUPPLIERS IN THE DOMINICAN REPUBLIC. OF THESE SUPPLIERS SHELL, WITH 31 PERCENT, CONTROLS THE LION'S SHARE OF THE MARKET. TEXACO IS A CLOSE SECOND WITH 30.3 PERCENT; EXXON HAS 20.8 PERCENT; AND ISLA HAS 17.8 PERCENT. IN THE AREA OF INDUSTRIAL FUELS, SHELL AGAIN LEADS THE PACK WITH 45.6 PERCENT OF SALES; EXXON FOLLOWS WITH 35.3 PERCENT; ISLA IS THIRD WITH 10.5 PERCENT OF THE MARKET; FOLLOWED BY TEXACO WITH 8.5 PERCENT. THE GODR

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STRICTLY REGULATES THE MARKET AND SETS PRICES, ALLOWING A SET  
MARGIN FOR EACH STEP AS THE FUELS MOVE FROM IMPORTER AND  
REFINER TO DISTRIBUTOR AND RETAILER. 2002 WITNESSED RETAIL  
PRICE INCREASES OF 29.4 PERCENT. GOVERNMENT TAXES ON FUEL  
ALSO ADD BETWEEN THIRTY AND EIGHTY-ONE PERCENT TO THE RETAIL  
PRICE, DEPENDING ON WHICH TYPE OF FUEL IS PURCHASED.

6. (U) IMPACT OF VENEZUELAN OIL STRIKES: HAVING LOST THE  
PROTECTIONS OF A PREFERENTIAL PURCHASER AGREEMENT AND THE  
RESULTING GUARANTEED SUPPLY OF OIL, THE DOMINICAN REPUBLIC  
HAS BEEN FORCED TO COMPETE ON THE WORLD MARKET TO MEET ITS  
ENERGY NEEDS. THE HIGHER PRICES FOR OIL OUTSIDE THE SAN JOSE  
ACCORDS AND THE DEPRECIATION OF THE PESO HAVE FORCED THE GODR  
TO INCREASE PRICES AT THE PUMP. IN ADDITION, THE GODR CAN NO  
LONGER PROJECT FUTURE OIL PRICES, AND THE FLEXIBLE PAYMENT  
TERMS AND GENEROUS INTEREST RATES PREVIOUSLY PROVIDED BY THE  
ACCORDS ARE A THING OF THE PAST. THIS HAS RESULTED IN  
DOMINICAN PURCHASERS OF FOREIGN OIL BEING REQUIRED TO USE  
ALREADY LIMITED FOREIGN EXCHANGE TO PURCHASE FOREIGN OIL.  
SIMPLY PUT, THERE MAY BE SUFFICIENT OIL AVAILABLE, BUT NOT  
ENOUGH MONEY AVAILABLE TO BUY IT. FINALLY, BY PURCHASING  
OIL IN THE OPEN MARKET, THE DOMINICAN REPUBLIC IS LOSING THE  
20 PERCENT REINVESTMENT BENEFIT OF THE ACCORD.

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	G-00	NFAT-00	SAS-00	/008W			

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7. (U) THE DOMINICAN REPUBLIC IS NOW PURCHASING OIL FROM MEXICO, THE UNITED STATES, ARGENTINA, ECUADOR, FINLAND, AND EVEN AFRICA. THERE HAVE BEEN LIMITED SHORTAGES CAUSED BY DELAYS IN SOURCING AND THE THREE TO FOUR WEEK LAG-TIME BETWEEN PURCHASE AND MARKET AVAILABILITY. THIS IS ESPECIALLY TRUE FOR AIRLINE FUEL, WHICH IS REFINED IN THE DOMINICAN

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REPUBLIC. THE GAPS IN SUPPLY DIRECTLY TRANSLATED TO GAPS IN AVAILABILITY, AND HAVE FORCED PLANES TO EITHER ARRIVE WITH SUFFICIENT FUEL FOR THE RETURN TRIP HOME OR MAKE ADDITIONAL FUELING STOPS IN MIAMI, PUERTO RICO, OR ELSEWHERE. THIS ADDS TO THE COST OF THE FLIGHTS AND IS REFLECTED IN HIGHER FARES. THIS HAS CAUSED CONCERNS FOR THE TOURISM INDUSTRY, AS PRICE-DRIVEN CONSUMERS GO ELSEWHERE.

8. (U) HIGH PRICES ARE ALSO LIMITING THE AMOUNT OF FUEL AVAILABLE ON THE LOCAL MARKET AND ARE RAISING AN ECONOMICALLY-MOTIVATED CALL FOR CONSERVATION. THE GOVERNMENT HAS PROVIDED ASSURANCES THAT THERE IS MORE THAN ENOUGH FUEL ON HAND TO LAST AT LEAST UNTIL MARCH, HOWEVER EDITORIAL PAGES, THE NATIONAL COUNSEL OF PRIVATE ENTERPRISE (CONEP), THE INDUSTRIAL ASSOCIATION, THE GASOLINE RETAILERS ASSOCIATION, THE LOCAL TRANSPORT UNION, AND VARIOUS GOVERNMENT ENTITIES ARE ALL CALLING FOR ACTION. SUGGESTIONS INCLUDE RATIONING THE AMOUNT INDIVIDUALS CAN PURCHASE, RESTRICTING THE OPERATIONAL HOURS OF TAXI CABS; A PROMISED CUT IN GOVERNMENT FUEL CONSUMPTION BY 7 PERCENT AS WELL AS RESTRICTING THE USE OF FUEL BY GOVERNMENT AGENCIES; AND A CALL FOR NATIONAL EDUCATIONAL PROGRAMS DESIGNED TO ENCOURAGE CONSERVATION. THERE IS EVEN TALK OF IMPROVED SYNCHRONIZATION OF TRAFFIC LIGHTS FOR FUEL EFFICIENCY, AND CARPOOLING.

9. (U) COMMENT: THE GODR FACES AN INCREASINGLY DIFFICULT SITUATION, AS RISING PRICES IMPACTING THE AVERAGE DOMINICAN. IT IS ALSO PUTTING PRESSURE ON THE GODR BUDGET. NEVERTHELESS, IT IS UNLIKELY THE GODR WOULD ABANDON ITS REGULATORY REGIME AND ALLOW THE MARKET TO DICTATE PRICES, AS TAXI DRIVERS' AND TRUCKERS' UNIONS, AS WELL AS THE PUBLIC AT LARGE ARE

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DEMANDING FURTHER GOVERNMENT INTERVENTION. THE POSSIBLE MEASURE OF CUTTING THE GAS TAX, WHILE POLITICALLY POPULAR,

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WOULD AFFECT GOVERNMENT REVENUES AT A TIME WHEN IT CAN  
ILL-AFFORD IT. RATIONING IS WIDELY VIEWED AS NON-WORKABLE,  
AND THE EDUCATIONAL CAMPAIGN ENCOURAGING CONSERVATION IN AN  
EFFORT TO REDUCE DEMAND IS IN ITS INFANCY. SHOULD THE  
STRIKES IN VENEZUELA DRAG ON -- OR IF THERE IS A DISRUPTION  
IN MIDDLE EAST OIL EXPORTS -- THE ECONOMIC IMPACT ON THE  
DOMINICAN ECONOMY WILL BE PROGRESSIVELY MORE DAMAGING.  
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